

Budget Overview

History

York County, Virginia, which was originally named Charles River County, was one of Virginia's eight original "shires" formed in 1634. It was renamed nine years later in 1643 when the river that determines the County's character was also given the name of the then Duke of York. York County has played a major role in the development of this nation. Most importantly, it was the location of the culminating battle of the Revolutionary War and the subsequent surrender of Lord Cornwallis and his British army on October 19, 1781.

Location

York County is located in the Virginia Coastal Plain on a peninsula formed by the James and York Rivers and the Chesapeake Bay. The County is surrounded by James City County and the Cities of Williamsburg, Newport News, Hampton, and Poquoson. This area is known as the Virginia Peninsula and is part of the Norfolk-Virginia Beach-Newport News VA NC Metropolitan Statistical Area (Norfolk MSA). York County consists of approximately 108 square miles, with federal landholdings constituting nearly 40% of the land in the County.



Form of Government

The County of York, Virginia (the County) is organized under the traditional form of government (as defined under Virginia Law). The governing body of the County is the Board of Supervisors that establishes policies for the administration of the County. The Board of Supervisors comprises five members: one member from each of five districts, elected for a four-year term by the voters of the district in which the member resides. The Board of Supervisors appoints a County Administrator to act as the administrative head of the County.

Quality of Life

In 2004, York County ranked in the top 2% of best counties in a nation-wide quality of life study conducted by American City Business Journals, Inc. The County ranked 37th among the nation's 3,141 counties and independent cities. The study used 20 categories for the quality of life rating, including median household income, racial diversity, unemployment, commute times for residents and high school graduation rates.

Population

York County is home to approximately 62,500 people and ranks 19th among Virginia's 95 counties. In land area, York is the third smallest county in the state, making it the sixth most densely populated county. With a 32.7% increase in population from 1990 to 2000, York County was the second-fastest growing locality in the Norfolk-Virginia Beach-Newport News MSA from 1990 to 2000 (behind James City County).

Age

The 2000 median age in the County was 36.5 years, nearly 4 years older than in 1990. The population is getting older, on average, as it is all over the country, because of the aging of the post-war baby boom generation born between 1946 and 1964. The baby boom was followed by a "baby bust" period that brought lower fertility rates, causing a "bulge" in the age distribution of the population. Meanwhile, medical advances have increased the average life expectancy, and the Census Bureau projects that it will continue to increase. The cumulative effect of these trends has been a significant rise in the median age both in York County and nationally.

Race

The racial composition of the County's population has been fairly stable, with Caucasians representing 80% of the population in both 1990 and 2000. Although the number of black residents rose 13.9%, the black proportion of the non-white population fell from 83% to 67% while the Asian population almost doubled from 12% to 16% of the minority population.

Households

The vast majority of the County's households are married-couple families, despite an increase in other types of living arrangements such as single-parent families, unrelated people living together, and people living alone. This prevalence of married-couple families in York County is reflected in its relatively large average household size. This is partly attributable to the County's large proportion of on-base military households living in housing.

Labor Force and Unemployment

The labor force is generally well-educated. The high level of education in the County is reflected in the types of jobs its residents hold. York County has one of the lowest unemployment rates in the Metropolitan Statistical Area (Norfolk MSA), and it consistently trails the regional, statewide, and national rates.

Income

York County is one of the most affluent localities in Hampton Roads, with a 1999 median household income, as reported in the 2000 census, of \$57,956. On average, County incomes have increased by one-half since 1989.

Economic Development

The County has attracted over \$200 million worth of commercial and industrial development between 1995 and 2004. Much of this new development has been in the retail sector, including Lowe's and Home Depot home improvement centers and two Wal-Mart supercenters. Tourism also plays a large role in the economy. In 2005, the County will see the opening of two major economic development initiatives. The Great Wolf Lodge opened in March in the upper County and in May, the County's Riverwalk Landing project, which is comprised of a sit-down restaurant, retail shops and short-term docking facilities for recreational boaters and passenger cruise ships, will open in Yorktown. Both projects are expected to positively impact the County's tourism and retail economies.

Statistical Information

Top Employers

<u>Employer</u>	<u>No. of Employees*</u>
Naval Weapons Station/Cheatham Annex	3,177
York County School Division	1,890
Wal-Mart	914
York County Government	842
Water Country USA	814
Fairfield Resorts	326
K-Mart	267
Kings Creek Plantation	239
Giant Industries	199
Food Lion	198

*Includes full-time and part-time positions.

Population, Per Capita Income and Unemployment Rates

<u>Fiscal Year</u>	<u>Population</u>	<u>Per Capita Income</u>	<u>Unemployment Rate</u>
2004	62,300	\$ 34,340	2.3%
2003	61,000	32,974	2.5%
2002	59,700	31,673	2.6%
2001	58,800	30,894	2.2%
2000	56,297	29,678	1.6%

Top Taxpayers

<u>Taxpayer</u>	<u>2003 Assessed Valuation</u>	<u>Tax</u>	<u>% of Total Assessment</u>
Virginia Power Company	\$ 282,906,518	\$ 2,289,501	3.96%
Giant Industries	82,489,510	1,590,048	2.75%
Lawyers Title Insurance Co.	98,432,000	846,515	1.47%
City of Newport News	73,153,300	629,118	1.09%
Anheuser Busch Companies	43,779,515	405,747	0.70%
Philip Morris Inc.	14,560,025	299,980	0.52%
Wal Mart	28,683,040	288,946	0.50%
Kings Creek Plantation	24,258,195	211,700	0.37%
Verizon Virginia Inc.	22,473,915	193,374	0.33%
Kiln Creek Shopping Center	21,724,000	186,826	0.32%
	<u>\$ 692,460,018</u>	<u>\$ 6,941,755</u>	<u>12.01%</u>

Schools

Due to State law, the York County School Division is fiscally dependent upon the County. State law prohibits the School Division from entering into debt that extends beyond the current fiscal year without the approval of the local governing body. The governing body in York County is the Board of Supervisors. The Board of Supervisors approves the annual school budget, levies taxes to finance a substantial portion of the schools' operations and approves the borrowing of funds and the issuance of bonds used for school capital projects.

The York County School Board is responsible for elementary and secondary education within the County. There are five school board members, one from each electoral district.

The School Division's instruction program encompasses kindergarten through 12th grade. There are nineteen schools in the Division: 4 high schools, 4 middle schools, 10 elementary schools and 1 charter school.

Student performance and meeting the state's Standards of Learning (SOLs) remain the pinnacle of achievement for the York County School Division. Based on the spring SOL test results, the school division continues to be a leader in student performance across the state with 100% of our schools meeting the SOL requirements for full accreditation. Furthermore, students consistently exceed the state average on the SOL test and the Scholastic Achievement Tests (SAT).

Education Statistical Data

School Year	School Facilities	Student Avg Daily Membership	Annual Costs	Cost per Student
2004	19	12,363	\$ 85,673,325	\$ 6,930
2003	19	12,184	79,744,714	6,545
2002	18	12,010	75,284,635	6,268
2001	18	11,750	73,953,136	6,294
2000	18	11,667	69,453,775	5,953

Goals and Objectives

The quality of life in a community cannot be measured by statistics. It can only be expressed in terms of the collective experiences enjoyed by the residents. It includes such things as a comfortable climate, recreational and entertainment opportunities, educational and cultural life, and an aesthetically pleasing living environment.

York County is perhaps best defined by its quality of life. Mild temperatures, a low crime rate, hundreds of miles of coastline, and abundant flora and fauna contribute to the County's reputation as a desirable place to live. To preserve and enhance this high quality of life is the overriding purpose of the York County Comprehensive Plan, which is a long-range plan to the physical development of the County. The Comprehensive Plan is necessary to ensure the efficient use of land in recognition of environmental constraints and the capacity of the public infrastructure. Its intent is to provide for an appropriate mix of residential, commercial and industrial development; to guide such development to appropriate areas of the County based on the carrying capacity of the land, the existing development character, and the presence of infrastructure and public facilities; to preserve the County's natural resources and aesthetic quality and to prevent the overburdening of the County's roads, utilities, facilities and services.

The Comprehensive Plan is updated every five years. The plan was last updated in fiscal year 2000 and the next version, currently being updated, will be available in the first quarter of fiscal year 2006. The plan is divided into chapters of elements dealing with each of the seven subject areas addressed in the plan. The matrix below outlines which departments/divisions are responsible for the implementation of the goals. Within the budget document, the divisions responsible for fulfilling these goals provide a narrative outlining their respective objectives and implementation strategies. The narrative that follows this matrix is an excerpt from the Comprehensive Plan.

Department	Community Facilities	Economic Development	Environment	Housing	Transportation	Utilities	Land Use
General Admin	✓						
Judicial Admin	✓						
Public Safety	✓						
Environmental & Development Svcs	✓		✓			✓	
Finance & Planning	✓	✓	✓	✓	✓	✓	✓
Education							
Educational Svcs	✓						
Human Services	✓			✓			
General Services	✓						✓
Community Svcs	✓			✓			
Capital Outlay	✓	✓			✓		✓

Community Facilities

Vision: York County should be a community where the citizens feel safe from crime, receive prompt and effective emergency services when needed, and have convenient access to public facilities at appropriate locations to serve them economically and efficiently.

Goals:

- Coordinate the location and timing of public facilities in recognition of existing and anticipated needs and characterizes – including the age distribution and location of present and projected future populations.
- Avoid wasteful duplication of effort in the construction and operation of public facilities.
- Maintain historic Yorktown as the seat of County government.
- Make optimum use of existing court and office space.
- Provide Sheriff's facilities to accommodate manpower levels sufficient to provide prompt and effective crime protection, prevention and law enforcement to all areas of the County.
- Provide detention/correctional facilities of sufficient capacity to house securely and safely the County's future adult and juvenile inmate population.
- Provide fire stations to accommodate manpower levels sufficient to provide prompt and effective fire and emergency medical response to all areas of the County.
- Maintain a five-minute average fire and emergency response time to at least 90% of the County's land area.
- Achieve higher levels of excellence in library service.
- Provide convenient library service to all areas of the County.
- Provide for a range of recreational facilities and activities adequate in number, type, size, and location to accommodate the needs of County residents.
- Increase use of New Quarter Park.
- Ensure that athletic fields and other recreational facilities are well-maintained.
- Provide a learning environment that is conducive to the education of all present and future school-age children in the County.

- Achieve and maintain the following overall student/classroom ratios and program capacity guidelines at each school: Elementary 22:1, 350-700 students; Middle 23:1, 700-1000 students; High 25:1, 1200-1800 students.
- Optimize use of school facilities and grounds.
- Promote lifelong learning.

Economic Development

Vision: York County should be a community with a healthy and diverse economic base that provides well-paying jobs and generates sufficient revenue to pay for the service needs of both businesses and the citizens without detracting from the natural environment or the overall quality of life.

Goals:

- Expand York County's tax base in accordance with the following targets:
 - Increase the commercial and industrial proportion of York County's total tax revenue to 50%.
 - Increase the combined share of nonagricultural civilian employment represented by the Manufacturing, F.I.R.E. (Finance-Insurance-Real Estate), Transportation-Communication-Public Utilities, and Wholesale Trade sectors.
- Enhance the long-term visual attractiveness of the County's arterial roadways.
- Increase visitation to York County.
- Increase public awareness of the importance of economic development to York County.
- Expand job opportunities for York County's high school graduates.
- Promote York County as an attractive location for economic development.
- Exploit, upgrade, and extend existing rail linkages in York County to promote industrial and warehousing uses.
- Eliminate unnecessary delays in the review of economic development projects.
- Encourage creativity in the design of economic development projects.

Environment

Vision: There should be a balance between York County's natural and built environment that positively contributes to the quality of life of both current and future generations.

Goals:

- Preserve and protect environmentally sensitive areas and natural resources from the avoidable impacts of land use activities and development.
- Enhance public awareness and understanding of the importance of environmental conservation and preservation.
- Improve air quality.
- Ensure that land development occurs in recognition of the ability of the land to support such development without environmental degradation.
- Maintain open space requirements within developing areas for purposes of wildlife habitat and the preservation of ecologically sensitive areas.
- Ensure the conservation and enhancement of adequate and safe future water supply areas.
- Ensure existing and proposed public and private access facilities (docks and piers) do not have a negative impact on water quality.
- Protect coastal wetlands, marshes, rivers, inlets and other bodies of water from degradation associated with land development.
- Limit noise associated with nonresidential development.
- Achieve a 50% recycling rate.
- Provide for the convenient, efficient, and safe removal and disposal of leaves and yard debris.
- Expand markets for recycled and recyclable products.

Housing

Vision: Decent, safe, sanitary, and affordable housing should be available to all County residents.

Goals:

- Make suitable housing available to households of a wide range of income levels.
- Protect residential areas from encroachment by incompatible land uses that adversely affect the quality of life.
- Prevent neighborhood blight and housing dilapidation.
- Promote the development of pleasant and attractive living environments.
- Continue opportunities for mixtures of different types of housing (i.e., detached, attached, multi-family) in a single residential development.
- Continue opportunities for mixtures of residential, commercial, office, and limited industrial uses within a single development.

Transportation

Vision: People and goods should be able to move safely, efficiently, and cost-effectively within the County and throughout the region.

Goals:

- Develop on a regional basis an air transportation system in a manner that minimizes the noise impacts and safety concerns on existing County residential areas, while maximizing the economic and transportation service benefits to County citizens.
- Double the number of bicycle trips for purposes of transportation as well as recreation both within York County and between the County and neighboring jurisdictions.
- Promote the development of facilities to accommodate van-pooling, ride-sharing, telecommuting, and other transportation demand management efforts aimed at the employment and service sectors in the County and the region.
- Promote the development and subsequent utilization of mass transit to serve heavily traveled and densely populated corridors to reduce passenger car loads on such corridors.
- Encourage economical transportation services for senior citizens and the physically and sensory challenged.
- Expand rail passenger service to and throughout the Peninsula.
- Exploit, upgrade and extend existing rail linkages in York County to promote industrial and warehousing uses.
- Reduce peak-hour traffic congestion on major County arteries.
- Reduce the number and severity of accidents on York County's roadways.
- Promote roadway development that is sensitive to environmental and cultural resources.
- Encourage people to make short trips by foot.
- Provide a safe and convenient walking environment for pedestrians.
- Reduce the number and severity of pedestrian traffic accidents.
- Enhance the safety of the County's waterways.
- Revitalize the Yorktown waterfront and strengthen the relationship between the York River and Yorktown.
- Explore opportunities for meeting dredging needs for both recreational and commercial watercraft.

Utilities

Vision: York County should be a locality where the people have access to safe and efficient means of wastewater disposal, to water supplies that are sufficient in quality and quantity to meet household and fire suppression needs, and to other utilities that enhance the overall quality of life.

Goals:

- Eliminate overhead utilities.
- Minimize the amount of tree clearing required for utility installation and maintenance.
- Support and regulate the development of state-of-the-art telecommunications facilities in the County that serve both the educational and business communities and provide needed connectivity without sacrificing aesthetic objectives.
- Extend public sewer to areas in the County based on a priority system that includes the following criteria:
 - Health considerations
 - Fiscal constraints
 - Potential development densities
 - Economic development opportunities
 - Environmental constraints
- Prevent development from exceeding the capacity of the public sewer system.
- Reduce the incidence of failing septic systems.
- Reduce danger to persons, property, and the environment caused by stormwater runoff from developed areas.
- Extend public water to areas in the County based on a priority system that includes the following criteria:
 - Health considerations
 - Fire suppression needs
 - Fiscal constraints
 - Potential development densities
 - Economic development opportunities
 - Environmental constraints
- Expand the supply of potable water in the County and the region.
- Protect the quality and quantity of groundwater and surface water.
- Discourage excessive water use.

Land Use

Vision: Land use in the County should contribute to the perception of a rural character in accordance with the carrying capacity of the land and present and planned infrastructure.

Goals:

- Provide for orderly residential growth that would allow the County population to reach a maximum of approximately 80,000 persons.
- Maintain a balanced diversity of land uses, with minimal conflicts among different uses, in recognition of the physical characteristics of the County and the inherent capacity of the land to host different types of uses.
- Consider development patterns and plans established in adjoining jurisdictions when making local land use decisions and designations.
- Preserve open space throughout the County such that these areas will become an integral part of the community.
- Preserve and protect certain lands near the shoreline that have intrinsic value for the protection of water quality in the Chesapeake Bay and its tributaries.
- Preserve, protect, and enhance cultural, environmental, and historic areas.
- Enhance the visual appeal of the County's major corridors, particularly the Route 17 corridor.
- Protect unspoiled vistas and views of the water.

Performance Measurement

The budget process incorporates the Program Effectiveness Process (PEP). As called for in a Board of Supervisor's goal, PEP is a County program utilized to assist with the assessment process to ensure that services provided are operationally effective and efficient and that expenditures are essential. It provides the information necessary to evaluate service delivery options and to determine if programs are responsive to the needs and priorities articulated by the Board of Supervisors and citizens. A mission statement, goals, objectives and measures are developed for each budget activity and submitted with the budget request. In addition, departments are responsible for submitting quarterly updates to their PEP reports.

Capital Improvements Program

A given capital project must have an estimated expected useful life of three or more years and have a cost of at least \$30,000 to qualify for inclusion in the County's Capital Improvements Program (CIP). The CIP is a six-year plan that addresses both repair and replacement of existing infrastructure as well as the construction or acquisition of new facilities and equipment to accommodate current and future demands for service. Details on capital projects are located within the separate CIP document.

Capital expenditures are accounted for in their respective funds, including the general fund, the capital projects funds, the enterprise funds and the school construction fund. The CIP is divided into three sections: General Fund, School Capital Fund and Enterprise Funds. The General Fund portion contains projects related to general governmental services in areas such as general administration, facilities maintenance, public safety, parks and recreation and stormwater projects. The School Capital Fund section reflects the projects involving infrastructure used in support of the County School Division. Solid waste, water and sewer projects may be found in the Enterprise Funds section.

Financing of the CIP is provided on a pay-as-you-go basis or through debt issuance. Pay-as-you-go funding is provided from several sources including current tax revenues, interest earnings, revenues from other governmental agencies and user fees. Debt funding may include general obligation bonds, revenue bonds or lease financing.

The aggregate budgeted amount of capital expenditures for FY2006 is \$33,628,900. Included in this total is funding for school capital projects (\$17,375,000). Of this total, a significant portion is allocated to two major projects: additions and renovations to York High School (\$12,425,000) and additions and renovations to the School Board Office (\$2,500,000). A debt issuance is planned for approximately \$16,000,000 in FY2006 to assist with the funding of these projects. A list of all school capital projects can be found behind the School Funds tab.

A total of \$9,300,000 for sewer projects is also included in the FY2006 CIP. Major projects budgeted in fiscal year 2006 include the Marlbank Farms, Queens Lake and York Point subdivisions. These projects are paid through user fees in the fund. The Sewer Fund is located behind the Enterprise Funds tab.

Funding for FY2006 also includes a significant non-routine capital expenditure (\$5,000,000) for an athletic field complex. This project does not significantly impact County operations, as the funding will be provided from accumulated capital fund reserves.

Budget Process

The County has a separate unit within the Department of Financial and Management Services, the Division of Budget and Financial Reporting (BFR), dedicated to the budget and financial reporting processes. Each fall, BFR drafts and distributes a Procedures Manual outlining the departments' responsibilities for the upcoming budget year. As outlined in that document, all budget requests must be prepared using the standard electronic files distributed by BFR and departments are responsible for adhering to the established due dates. Afterwards, a series of departmental meetings are held.

During the spring, the County Administrator submits a balanced budget to the Board of Supervisors for the next fiscal year to begin July 1. After a series of work sessions with the Board of Supervisors and public hearings, the budget is amended as necessary and an appropriations resolution by functional level is adopted. Tax rates are established prior to the beginning of the fiscal year. The budget is required to be adopted by a majority vote of the Board of Supervisors prior to the end of the current fiscal year. The budget, as adopted by the Board of Supervisors, may be amended by the Board of Supervisors through supplemental appropriations or transfers as necessary. The legal level of budgetary control rests at the fund level with the exception of the general fund, which is appropriated at the functional level.

Budget Calendar

The following timeline outlines the general budget process for the County for the forthcoming fiscal year:

July	Departments submit requests for New Personnel, Programs and Equipment (PPE). Meetings are held with Departments to discuss their requests.
October	Budget Call Session is held for the Departments. This informational session is to obtain instructions regarding the preparation of their respective budgets.
November	Departments are required to submit their budgets to the Division of Budget and Financial Reporting.
December	A summary of New PPE and the preliminary Capital improvements Program (CIP) budget is presented to the County Administrator.
January	Revenue projections and expenditure estimates are provided to the County Administrator. A preliminary budget outlook is presented at a joint work session with the County's Board of Supervisors and the School Board. Meetings are held with Departments to discuss their operational and capital needs.
February	Work sessions are held with the Board of Supervisors to present and discuss New Personnel, Program and Equipment requests. Work sessions are held with the Board of Supervisors to present and discuss the Proposed CIP budget. Public Forum is held. Final adjustments to the Proposed Budget are made.
March	Media briefing and formal presentation of the Proposed Budget are held. Advertise budget, tax assessment and tax rate. Public hearings on the budget and tax rates are held. Various work sessions are held to discuss the Proposed Operating and CIP budgets.
April	Operating and CIP budgets are adopted.

Financial Policies

York County's policy, in compliance with the Code of Virginia, is to propose and adopt a balanced budget for the General Fund, whereby revenues equal expenditures. The general, special revenue, debt service, and capital projects have legally adopted budgets. Proprietary funds with activity in addition to depreciation are also appropriated, with the exception of the Riverwalk/Yorktown Operations Fund, which utilizes a flexible budget, where the demand for services is difficult to estimate and therefore, the level of spending needed to meet demand.

The Comprehensive Annual Financial Report includes the additional proprietary funds not budgeted for the reasons outlined above and trust and agency funds. The County, acting as fiscal agent, would not legally adopt the budget for these funds.

Investments

The Treasurer of York County is an elected Constitutional Officer whose responsibility, in part, is to invest York County funds in an expedient and prudent manner, meeting or exceeding all statutes and guidelines governing the investment of public funds in Virginia. This policy applies to the investment of all funds, excluding the investment of employees' retirement funds. Proceeds from certain bond issues, as well as separate foundation or endowment assets, are not covered by this policy. Significant excerpts from the investment policy are outlined below.

Except for cash in certain restricted and special funds, cash and reserve balances from all funds will be consolidated to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk. Credit risk is the risk of loss due to the failure of the security issuer or backer, by limiting investments to certain types of securities or diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity or investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools, which offer same-day liquidity for short-term funds.

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions: a security with declining credit may be sold early to minimize loss of principal, a security swap would improve the quality, yield, or target duration in the portfolio or liquidity needs of the portfolio require that the security be sold.

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

Securities will be held by an independent third-party custodian selected by the Treasurer as evidenced by safekeeping receipts in the County's name. The investment officer shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees.

The following investments will be permitted by this policy and are those defined by state and local law where applicable: U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available; U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value; certificates of deposit and other evidences of deposit at financial institutions, bankers' acceptances; corporate notes and bonds (U.S. dollar denominated) rated in the AAA or AA categories by both Standard & Poor's and Moody's; commercial paper (U.S. dollar denominated) issued by an entity incorporated in the U.S.; rated "prime quality" by at least two of the nationally recognized rating agencies; investment-grade obligations of state, provincial and local governments and public authorities; repurchase agreements whose underlying purchased securities consist of the aforementioned instruments; money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation.

The investments shall be diversified by: limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities), limiting investment in securities that have higher credit risks, investing in securities with varying maturities, and continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

This policy shall be reviewed by the Treasurer on an annual basis.

Debt Policy

The County does not issue long-term debt to finance current operations and emphasizes pay-as-you-go capital financing. The County does not use tax revenue anticipation notes (TRANS) to fund current operations and does not intend to issue bond anticipation notes for a period of longer than three years. The issuance of variable rate debt by the County is subject to careful review and is issued only in a prudent and fiscally responsible manner.

Whenever the County finds it necessary to issue bonds, the term of any bond issue will not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended. The County shall comply with all U.S. Internal Revenue Service arbitrage rebate requirements for bonded indebtedness. The County shall comply with all requirements of Title 15.1 Code of Virginia and other legal requirements regarding the issuance of bonds and certificates of the County or its debt issuing authorities.

Whenever the County finds it necessary to issue revenue-supported bonds, the following guidelines will be adhered to:

- Revenue-supported bonds are defined as a bond in which the debt service is payable solely from the revenue generated from the operation of the project being financed or a category of facilities (i.e. water, sewer, solid waste).
- The term of any revenue-supported bond issue will not exceed the useful life of the capital project/facility or equipment for which borrowing is intended.
- Revenue-supported bonds will be structured to allow equal or declining annual debt service payments over a term not to exceed the life of the project being financed. For those revenue-supported bonds issued to the Virginia Revolving Loan Fund annual debt service payments shall not exceed twenty years.

In accordance with the Code of Virginia, legal debt limits do not apply to counties, unless the county elects to be treated as a city for the purpose of incurring debt and issuing bonds. York County has not made such an election and consequently is not subject to debt legal limits. The County monitors all debt covenants to ensure compliance. For governmental funds, proceeds from the issuance of debt and the repayment of debt are accounted for in the debt service funds. For proprietary funds, accounting for debt occurs in the respective fund.

Revenue

The County's revenue stream consists of local, state, federal and other financing sources. The majority of the County's revenue is derived from general property taxes. It is the County's policy for one-time revenues to be used to fund capital projects. In addition, the County strives to diversify its sources of revenue.

Expenditures

The County's expenditure budget is divided into functional areas (departments). Each department is assigned a Budget Analyst. The Budget Analyst, in coordination with Department Heads, monitors expenditures throughout the fiscal year to ensure compliance with legal requirements and accounting standards.

The County Code provides that the County Administrator may transfer funds within appropriation functions. These transfers allow for the disbursement of funds for unanticipated costs incurred in daily County operations and any such transfer may not result in a change in the total appropriated for personnel or non-personnel costs within the function.

Fund Balance Reserve

Fund balance reflects the accumulation of excess revenues over expenditures. The County strives to maintain a minimum unobligated fund balance of 18% of the current year budgeted expenditures for operations as a reserve. This unobligated portion of fund balance provides sufficient working capital for the County and serves as a "rainy day" fund for emergencies or unforeseen circumstances.

Fund balances for the County and School Division's capital projects funds are projected to decrease in fiscal year 2006. These funds have accumulated balances in previous years to finance major pay-as-you-go capital projects beginning in fiscal year 2004 and continuing into fiscal year 2006.

Fund Structure

The accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate self-balancing set of accounts that comprise assets, liabilities, revenues and expenditures/expenses. The following fund types are used: governmental, proprietary, trust and agency funds and component units.

Governmental Funds

Most governmental functions of the County are financed through governmental funds. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

General Fund

The General Fund is the County's primary operating fund. It is used to account for all revenue sources and expenditures, which are not required to be accounted for in other funds.

Special Revenue Funds (Social Services, Law Library, Children's Services)

Special Revenue Funds are used to account for the proceeds of federal, state and local sources that are legally restricted to expenditures for specified purposes.

Debt Service Funds (Fire & Rescue, School, Public Facility)

Debt service funds are used to account for the receipt and payment of bonds and loans issued for equipment purchases, construction and maintenance of facilities.

Capital Projects Funds (Stormwater Projects, Yorktown Capital Improvements, County Capital)

Capital Projects Funds are used to account for financial resources used to address drainage improvements, and for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary funds).

Proprietary Funds

Proprietary funds account for operations similar to those in the private sector. Proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

Internal Service Fund

The Vehicle Maintenance Fund accounts for the operation of the vehicle maintenance and replacement services that are provided to County departments on a cost reimbursement basis.

Enterprise Funds

Solid Waste Fund

This fund accounts for the operations of the County's solid waste disposal system.

Water Utility Fund

This fund accounts for operations of the County's water utility systems.

Sewer Utility Fund

This fund accounts for the operations of the County's sewer utility systems.

Water and Sewer Extension Fund

This fund accounts for the County's water and sewer construction projects.

Riverwalk/Yorktown Operations

This fund accounts for the operations of Riverwalk Landing, including tenant lease income and operational expenses to maintain the retail space and piers.

School Funds

The County's budget includes the operating and construction funds of the York County School Division.

School Operating Fund

This fund accounts for the day-to-day operations of the School Division.

School Construction Fund

This fund accounts for the maintenance and construction needs of the School Division.

Basis of Budgeting

The budgets of governmental funds are prepared on the modified accrual basis. The accrual basis of accounting is used for the proprietary funds, except for depreciation, amortization, debt principal payments and capital outlay.

Basis of Accounting

The CAFR is prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted primary standard-setting body for establishing governmental accounting and financial reporting principles.

In most cases, the accounting treatment conforms to the budget treatment with the following exceptions:

- Compensated absences are accrued as earned (GAAP) versus expensed when paid (budget).
- Depreciation and amortization expenses are non-cash items and are not budgeted. These expenses are recognized for GAAP purposes.
- Principal payments on debt in the Proprietary funds result in a reduction in the outstanding liability (GAAP) versus expensed (budget).
- Capital outlay in the Proprietary funds is recorded as a capital asset (GAAP) versus expensed (budget).

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